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Grain and Feed

Grain and Oilseeds Update

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Report Highlights:

MY02/03 Bulgarian grain exports (as of September 20, 2002) totaled 600,000 MT, of which 250,000 MT was wheat and 350,000 MT was barley (a record level). Major export destinations for wheat are Spain and Italy; and for barley - Algeria and Saudi Arabia. The GOB started a state intervention effort and will purchase 200,000 MT of wheat for the state stocks with a plan to export this amount later in MY02/03.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Sofia [BU1], BU

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Weather

The weather in September was mild and warm with temperatures around normal for this season. Lack of rain prior to September 20 was favorable for corn and sunflower harvesting as well as for the first soil preparations for fall crop planting.

During the first half of September, the total amount of precipitation in southern regions and along the Black Sea coast was above average for the month (between 57 liters/sq.m. and 64 liters/sq.m.). Precipitation in the western area was 4 liters/sq.m. to 7 liters/sq.m. In northern Bulgaria, the amount of precipitation was about 14 liters/sq.m. or close to the seasonal norm.

Production

Wheat: The Sofia AgOffice has revised down estimates for wheat by 5 percent compared to the previous report (BU#2013) due to abundant rains during harvest which left some wheat areas unharvested.

Rains also negatively affected the quality of wheat. Quality of harvested which was stored in open spaces (produced mainly by smaller farms) worsened significantly and was suitable only for feed. Some of unharvested wheat germinated and can be used for feed only. Thus, the percent of milling quality wheat in total production was further reduced.

Barley: The AgOffice estimate (see #BU2013) is not revised. The majority of industry and government sources indicate MY02/03 production is close to 1.0 MMT. The AgOffice revised harvested area, an increase of 8 percent, after collection of final data from industry sources.

Corn: According to the early data, average corn yields in the major corn production region are 6.0 MT/HA and 2.5 - 3.0 MT/HA in other regions. This confirms the previous AgOffice estimate for production of 900,000 MT. More precise data will be available by October upon final completion of corn harvest.

Sunflower: Early harvest data confirms more optimistic expectations for good yield. To date, reported yields averaged 1.2 MT/HA with 2.5 MT/HA in the major production areas. Thus, total production is likely to be in a range of 450,000 MT to 500,000 MT (or 480,000 MT if these average yields are final). Since local consumption is not expected to exceed 350,000 MT, about 100,000 MT to 150,000 MT could be available for exports.

Grain and Oilseeds Production Estimates in MY2001/02 and MY2002/03				
	Crop Area, HA		Production, MT	
	MY2001/2002	MY2002/2003	MY2001/2002	MY2002/2003
Wheat	1,100,000	1,150,000	3,100,000	3,450,000
Barley	260,000	325,000	750,000	950,000
Corn	340,000	280,000	870,000	870,000
Sunflower	398,000	400,000	392,000	450,000
Note: Ag Office estimates				

Trade

Exports

Wheat: According to unofficial sources, wheat exports in MY02/03 as of September 20 were 246,000 MT (close to 300,000 MT according to other sources). Major destinations are Spain, Italy and Algeria. Out of total wheat exports, 96,000 MT or 40 percent is milling quality wheat and the remaining 60 percent is feed quality. Unlike barley, wheat is exported via Black Sea ports, mainly Burgas, and Varna.

After the abundant rains in late July/August, the Ministry of Agriculture (MinAg) lowered its forecast for MY02/03 wheat exports from 1.0 MMT - 1.5 MMT to below 1.0 MMT due to its poor quality.

Barley: Barley MY02/03 exports as of September 20 had reached 340,000 MT. The MinAg forecasts MY02/03 barley exports to be record high and to reach 500,000 MT due to the very good quality and competitive prices. Major destinations are Algeria, Saudi Arabia and Romania. Barley destined for Romania (Constantza port) is afterwards re-exported to other destinations in the Near and Middle East and in North Africa. Exports to Romania are mainly via Danube ports in barges of 2,000 MT to 6,000 MT lots. All exported barley is of feed quality. Only 10,000 MT of malting quality barley for beer is exported to Romania.

Other trade:

- Corn exports for the period July 1 - September 20 were 5,200 MT to Turkey. There were 10,000 MT of corn imports from Hungary.
- Sun seeds exports just started in September with 4,000 MT of oil-bearing sunflower for Romania and another 2,000 MT of striped, black and white, sunflower for Austria. About 5,000 MT of sun oil were exported to Holland.
- Soybean meal imports for the same time period were all from Brazil (total 13,800 MT).

MY02/03 Wheat Exports in MT by destinations as of September 20		MY02/03 Barley Exports in MT by destinations as of September 20	
Italy	103,000	Syria	13,000
Tunisia	9,000	Algeria	95,000
Greece	8,000	Saudi Arabia	85,000
Turkey	3,000	UAE	18,000
Spain	63,000	Lybia	6,600
Lebanon	11,000	Romania	122,000
Algeria	42,000		
Albania	2,000		
Romania	6,000		
Total	246,000	Total	340,000

Trade Negotiations

Bulgaria is ready to finalize its talks with the EU about Bulgarian duty free grain export quotas. Until now, Bulgaria had a negligible EU quota of only 2,000 MT of wheat. According to the AgMinister, there is a very good chance for a quota of 200,000 MT. However, negotiations are for this quota to be increased to 290,000 MT in 2003. Over the last two years, Bulgaria exported wheat mainly to Spain, Italy and Portugal.

Domestic market

After the GOB announced its decision to purchase 200,000 MT of wheat in late August, farmers started to apply for sales in September. Purchases from farmers will be made via three commodity exchanges (Sofia, Plovdiv, Rouse). Quality of grain destined for state purchases will be tested twice and final quality tests will be made by the state grain fund.

As of September 25, farmers (about 700 producers) applied for 284,000 MT of wheat to be sold to the state. However, this amount was reduced to 220,000 MT due to problems with registration documents for some farmers. The biggest challenge, however, remains the quality of wheat. Often quality does not cor to the requirements for purchases. According to the MinAg, this key factor may reduce purchased quantities to 160,000 MT-180,000 MT. The share of cooperatives in applications is only 30 percent (and not 80 percent as claimed during recent farmers protests). The largest grain regions have submitted the smallest share of applications. It shows that the majority of efficient, commercial grain farms and those who have better quality, do not want to rely on state interventions.

Currently, 28 state brokers close contracts with farmers. The grain should be supplied to the 25 grain warehouses belonging to the state grain fund. Transportation cost from farms to the warehouses is paid by producers. Farmers will be paid three days after the actual purchase. The farm gate price will be 160 leva/MT (\$80/MT); without VAT of 20 percent.

In the process of application, government research revealed interesting facts:

- Many farmers hide the actual yield per hectare since they have contracts with the land owner to provide 30 percent of the yield as a rent payment. Therefore, producers usually reduce the actual yields.
- other farmers increase their yields/production/profit artificially since current legislation allows commercial agricultural businesses to not pay corporate/profit taxes. This makes agriculture attractive for some "grey business" groups which can legalize their capital via ag companies.

Currently, the most important question is what will happen if the government purchases 200,000 MT? How will the GOB sell or export this grain? How long will this grain be stored in warehouses? What will be the total cost of this state program? At present, the MinAg plans for purchased grain to be exported right after purchase; and at prices exceeding the cost. However, this approach by the state grain fund is viewed skeptically by many industry groups.

Producer Prices

(during the week of September 16-20)

Wheat: Milling wheat prices are about 130 - 140 leva/MT (\$65-\$70/MT); feed quality wheat is traded at 110-120 leva/MT (\$55 - 60/MT) and often at 100 leva/MT (\$50/MT). In some areas in south Bulgaria, feed wheat for export to Greece is traded at \$70/MT. The best quality wheat is traded at 150-170 leva/MT (\$75-\$85/MT).

Wheat flour (wholesale prices): The average prices for the basic quality type "500" were on average 330-350 leva/MT (\$165-175/MT); and for the type "700", the average price was 280-300 leva/MT (\$140-\$150/MT).

Barley: Malting quality barley is traded at 130-140 leva/MT (\$65-\$70/MT); feed quality barley is traded at 120-130 leva/MT(\$60-65/MT).

Corn: Average prices for the country stayed stable at 208 leva/MT (\$104/MT) with the highest registered price of \$130/MT and the lowest of \$85/MT.

Sunflower: Sunflower is actively traded. In September the prices slightly increased to about 360 leva/MT (\$180/MT) with a minimum of 340 leva/MT (\$170/MT) and a maximum of 388 leva/MT (\$195/MT). There are expectation that the sunflower prices will continue to slide upward and to stabilize at 370 leva/MT (\$195/MT). At many places, prices in mid-September reached 380-400 leva/MT (\$190-200/MT).

High sunflower prices are likely to drag down the sunflower market in the near future. Traders

consider producer prices above 350 leva/MT (\$175/MT) not reasonable for exports due to lower international prices. Local crushers also do not want to buy raw materials at higher prices since it will increase the production cost of vegetable oil for the local market. On the other hand, the current upward trend in prices is explained by the fact that crushers did not have any stocks from MY2001/02 (when the sunflower crop was short) and are currently trying to accumulate stocks for annual production. Therefore, crushers are trying to purchase oil-bearing sunflower at the limit price of 320-330 leva/MT (\$160-165/MT). Due to MY02/03 expected good supply and exportable surplus, it is very likely that prices will start to slide in October after local crushers accumulate sufficient stocks for their own processing.

Compound feed: As a result of major grain price reduction, compound feed prices also went down. The same trend was seen with bran prices. Prices of compound feed were as follows:

Piglets: 390 - 430 leva/MT (\$195 - \$215); min. 330 leva/MT (\$165/MT), max. 520 leva (\$260/MT);

Feeder pigs: 380-400 leva/MT (\$190 - \$200/MT); min. 300 leva/MT (\$150/MT), max. 450 leva/MT (\$225/MT);

Poultry, broilers: 500 - 550 leva/MT (\$250-275/MT); min. 420 leva/MT (\$210/MT), max. 580 leva (\$290/MT);

Poultry, hens: 440-460 leva/MT (\$220-\$230/MT), min. 350 leva/MT (\$175/MT), max. 530 leva/MT (\$265/MT);

Ruminants: 330-370 leva/MT (\$165-\$185/MT), min. 280 leva/MT (\$140/MT), max. 450 leva/MT (\$225/MT);

Bran: wholesale prices are on average 130-150 leva/MT (\$65-\$75/MT).

Oil Meals: Current wholesale prices of sunflower meal are about 300-340 leva/MT (\$150-\$170/MT) and have reached 400 leva (\$200/MT). Soybean meal prices (all imported) are about 490-550 leva (\$240-255/MT) on FOB basis.

Policy

In July and August 2002, many small to medium sized farmers, protested against the low grain farm-gate prices and demanded:

- introduction of a minimum purchase (farm-gate) price;
- state purchases of a certain amount of wheat, 100,000 MT to 300,000 MT, from the open market to stimulate demand at higher prices, 160 leva/MT (\$80/MT).

As a result, the GOB agreed to purchase 200,000 MT of wheat at 160 leva/MT for total 32 million leva/\$16 million (Decree #198 of August 29, Official Gazette # 84 and Decree #216 of September 20, Official Gazette #90). The state purchases will be done with certain conditions:

- 1/ wheat should meet the standards suitable for bread purposes although not the best quality;
- 2/ wheat should be from MY2002 crop;
- 3/ farmers should be registered as agricultural producers

based on the current law and to be known as legitimate companies; 4/one producer can sell from 10 MT to 1,000 MT; 4/certain regions that suffered from unfavorable weather will receive higher quotas; 5/ purchases are based on registered cultivated land and yields which exceed 2.5 MT/HA.

Another GOB action was the decision to introduce an export subsidy of 10 leva per metric ton (\$5.0/MT) for 500,000 MT of wheat or total 5 million leva (Decree #198 of August 29, Official Gazette # 84). This decision, however, is not yet implemented.

Despite the GOB's efforts to satisfy farmer demands, the requests have increased. Recently, the farmers requested higher fixed minimum prices for major grains, accompanied by greater state purchases. Also, the farmers have asked the GOB to introduce a range of subsidies from production based payments to export subsidies. As these request escalated, the grain farmers received support from small to medium sized vegetable and fruit producers in calling for state support.

The GOB's policy does not allow introduction of minimum purchase prices nor any significant state support for the ag sector. State intervention in 2002 is the largest over the last 12 years. At the same time, this support fund are small compared to other East European countries and will total reach only 1.5 percent of GDP in 2003. So far, all changes in support legislation are directed toward investment and green box payments and, thus not trade distortion practices.

Farmers protests did not find public support. Just the opposite, media articles stated that the ag sector should compete on equal basis with other economic sectors; and that the state budget does not allow significant support for any other sector.

Soft Credit Support

In 2002, the GOB increased its support in the form of soft credit lines for grain producers to 29 million leva (\$14 million) of which 15 million leva (\$7.5 million) was for planting seeds. This amount is destined for credit lines for purchases of MY03 planting seeds and fertilizers. The credit line covers 100 leva/HA (\$50/HA) for purchasing seeds including a 30 percent subsidy. There is also a subsidy line (1.5 million leva (\$0.75 million) to cover grain storage expenses.